

# Transformation and diversification in the context of regulated industries: The case of Poste Italiane and PosteMobile

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## Abstract

This case describes the diversification of Poste Italiane, the Italian postal operator, into the mobile telecommunications market, with the launch of PosteMobile in 2007. The case starts by explaining the general context of transformation and modernisation of Poste Italiane. The case was written for use in a final year undergraduate strategy course but could be equally useful for postgraduate or MBA courses.

**Keywords:** strategy; regulated industries; diversification; liberalisation

## Introduction

This case discusses the gradual transformation of a national postal operator, from a loss-making government agency to a profitable government-owned company. It illustrates this transformation by focusing on how the company has recently diversified into mobile communications. The case should allow students to:

- gain an understanding of the particular strategic context of a highly regulated network industry subjected to important changes in the external business environment
- examine how a company can successfully engage in seemingly unrelated diversification
- appreciate the importance of resources and competencies in market entry
- identify alternative competitive strategies in a highly competitive market
- understand how emergent and planned approaches to strategy may co-exist and be influenced by changes in top management

The case has been written with a broad audience in mind, including advanced bachelor, master or MBA students. A number of questions for class discussion are suggested in the accompanying teaching notes, along with a related discussion. The list of questions is not exhaustive and further topics could easily be discussed depending on the needs of the particular student audience. Questions 1, 2, 3 and 5 should be adequate for both undergraduate and postgraduate strategy students. Question 4, discussing planned and emergent approaches to strategy, may be more adequate for postgraduates, but this will largely depend on the curriculum of the particular course on which it is used.

This case does not depart far from the typical strategy case. The novelty lies mainly in the industry studied and the particular context of this type of government-owned business. The large majority of cases that lecturers and students are presented with concern large US brands, and to a lesser extent European or Asian brands, in quite competitive industries. The global postal industry is typical of a highly regulated industry and is in the midst of being transformed into a competitive industry. The case thus provides an opportunity for lecturers and students to familiarise themselves with this very particular context, and apply strategic thinking to that context. This should benefit students as they will gain a richer picture of strategy and its application.

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# Transformation and diversification in the context of regulated industries: The case of Poste Italiane and PosteMobile

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This case describes the diversification of Poste Italiane, the Italian Postal Operator, into mobile telephony, with the launch of PosteMobile in 2007. The case starts by explaining the general context of transformation and modernisation of Poste Italiane.

## Introduction

The European postal sector has been undergoing tremendous changes in recent years. Technology, in particular the internet and email, has led to a dramatic drop in the number of mail items sent by private individuals and, more recently, by businesses. On the other hand, the rise of e-commerce has had beneficial effects on the number of parcels sent from business to business and from business to consumer. In addition, the European postal market has gradually been opened up to competition, leaving only a few reserved areas for the former state monopolies, such as letters weighing less than 50 grams. The third European Union Postal Directive (European Union, 2008) provided for the complete removal of this reserved area and the full opening of the postal market by 1 January 2011 for 11 countries. Some countries (Sweden, Finland, United Kingdom, Germany and The Netherlands) have liberalised their market earlier, whereas others, for economic, size or territorial reasons, can postpone the full opening of their postal market until 1 January 2013.

The Italian postal market was fully liberalised as of 1 January 2011, effectively heralding a new era for the Italian postal operator, Poste Italiane. Despite the liberalisation, a Universal Service Obligation (USO) still exists whereby Poste Italiane has to guarantee mail delivery to all addresses within Italy, even if this carries a financial loss for the operator. This loss is covered by an annual government subsidy. In addition to this, the regulator imposes quality targets for postal services through indicators based on mail and parcels delivery times. Related penalties are specified in case targets are not achieved. Recent quality of service targets are found in Table 1.

With 13,992 post offices in 2009, Italy is one of the few European countries that has not seen a reduction in the number of post offices, and where the postal operator directly manages the whole post office network with its own staff. Regulations ensure the presence of post offices across the country and in particular in small towns, where such a presence may not be economically viable for the operator.

Delivery within	2008 Target	2008 Actual	2009 Target	2009 Actual
Priority mail 1 day	89%	90.6%	89%	90.07%
International mail: - inbound 3 days	85%	93.1%	85%	94.6%
- outbound 3 days	85%	92.4%	85%	94.1%
Registered mail 3 days	92.5%	93.8%	92.5%	94.4%
Insured mail 3 days	92.5%	98.6%	92.5%	98.6%

Table 1: Quality of service targets

In late 2007, the Poste Italiane Group launched PosteMobile SpA, a new company fully owned by the Group, and used this company as a vehicle to enter the mobile telecommunications business as a mobile virtual network operator. Since then, by offering a series of innovative mobile postal, banking and payment solutions, PosteMobile has capitalised on its unique combination of a highly recognised brand, Poste Italiane, the Group's national network of post office outlets, and its affiliation with BancoPosta, the financial arm of the Group. In addition to enjoying traditional mobile phone voice and data services, PosteMobile customers can link their SIM card directly to their BancoPosta current account, enabling them to make transfers and payments from their phone. In less than 2 years of operation PosteMobile signed up over a million customers, and was preparing to enter the B2B market and extend its range of services and price plans.

PosteMobile traces its strategic origins back to the late 1990s and is but one element of an overall strategy of diversification and modernisation. Although clearly a success so far, the project has taken several years to create and required substantial investments. These investments have been primarily in intangible assets, such as the software platforms required to run the virtual network operator. Furthermore, the mobile communications area was new to Poste Italiane, necessitating the development of new competencies and the

creation of an entire new organisation to manage its development. These potential challenges were overcome through efficient strategy implementation and successful collaboration with suppliers. The early successes illustrate the kinds of opportunities open to postal operators by diversifying into new business areas offering synergies with existing capabilities and service offerings.

### **Modernisation and diversification at Poste Italiane**

Originally a part of the Ministry of Post and Telecommunication (Amministrazione Poste e Telecomunicazioni or APT), Poste Italiane gained some measure of independence from government in 1994, when Ente Poste Italiane (EPI) was formed as a simple state entity. In 1998 EPI was again transformed into Poste Italiane SpA, a fully commercial undertaking 100% controlled by the state. Poste Italiane is thus owned 65% by the Ministry of the Economy and Finance and 35% by Cassa Depositi e Prestiti SpA (CDP), the Italian development bank, itself a joint-stock company under public control. The long-term plan is to privatise Poste Italiane and float its shares on the stock exchange, but the government has so far put off these plans.

Crucial to today's financial health of Poste Italiane is the fact that, as part of the 1994 transformation, the accumulated losses of the APT were taken over by the Italian state. During its long history, the Italian postal service has traditionally been a big loss-maker. This situation continued throughout the 1990s, with the Italian state effectively subsidising the postal service with around €9 billion between 1994 and 1999 (European Union (2002)). This high cost was explained by the historically low efficiency of the Italian postal system, the historically low number of postal items per capita sent in Italy relative to the size of the network, and especially the very heavy burden imposed by a preferential tariff for the press and non-profit publications. Thus, not only did the operator not manage to capture sufficient economies of scale but potentially profitable segments, like the delivery of newspapers, were regulated in such a way that margins in those segments were insufficient.

The transition from a state entity to a publicly owned company was a turning point in the history of Poste Italiane. Not only did Poste Italiane become a company focused on its customers and its bottom line, but it also embarked on a long-term transformation, aimed at improving productivity and growing new business areas. In 2002 the company posted profits for the first time in 50 years.

With 156,000 employees, 14,000 post offices, 5,000 ATMs and 44,000 vehicles, Poste Italiane is today a diversified company active not only in the traditional mail market, but also in parcels, express, banking, insurance and now mobile telecommunications. The postal services unit accounted for about 30% of the €18 billion of total revenue in 2008. The total mail volume handled was 6.4 billion items, of which 3 billion represented unrecorded items (priority and bulk). 2008 saw a decline in mail volume of 2.6%, confirming a gradual decline seen for several years in Italy, as in many other countries in Europe and the world. Financial services accounted for over €4.5 billion in revenue, and insurance for over €7 billion. The banking unit, BancoPosta, manages 5.5 million accounts, with over €250 billion held in current accounts. Poste Italiane has thus come a long way in the last 15 years, not only becoming a profitable enterprise, but going on to win the Cisco Networkers Innovation Award for technological innovation and being included among Fortune's list of the World's Most Admired Companies in 2007 (Poste Italiane, 2010).

Under the guidance of Professor Enzo Cardi, named Chairman in 1994, the financial restructuring of the company was initiated. The road to modernisation accelerated in 1998, with the appointment of Corrado Passera as the first CEO of the newly created Poste Italiane Group. Mr Passera had an MBA from Wharton, was a former McKinsey consultant, and had served as managing director of Italian computer and office equipment supplier Olivetti. He was brought in by Romano Prodi, Prime Minister at the time, and Carlo Azeglio Ciampi, the Treasury Minister. Mr Passera (cited in Kapner, 2002) stated that:

When I got there we had two months' worth of cash for salaries, negative net equity and no technology. No one believed in the future. I had to make sure the government was behind us and start investing in people. (p. 14)

For the next 4 years, from 1998 to 2001, Mr Passera worked with the labour unions to reverse losses, cut costs and improve services. During that time the workforce was cut by around 17,500 jobs or 10% (Michaels, 2005). Discussing his attitude to turning around a company such as Poste Italiane, Mr Passera (cited in Michaels, 2005) is quoted as saying:

You must always have two visions, the short-term and long-term. We described the situation very openly to the trade unions. We agreed on the possible targets and we agreed we had to reduce costs. Sometimes restructuring plans are not accepted by unions because the costs are only paid by workers. Shareholders, managers and employees all have to make sacrifices. If you want people to be with you in a period of sacrifice, you must clearly establish what the return will be.

The Italian government agreed to three annual capital increases of €500 million that would help Poste Italiane reduce its debt and invest in IT systems for its post offices. Along with investments in IT, many new managers were recruited from outside the company and staff were extensively trained in the use of the new equipment. In order to attract customers back to Poste Italiane, price structures were simplified and the price of priority mail was lowered, while stricter quality targets were set. By the time Mr Passera left the company, in early 2002, it was close to making a profit.

In 2002, Massimo Sarmi was appointed as the new CEO of Poste Italiane Group. He was previously managing director of Siemens Italy, continuing a new trend of bringing in top managers with a deep understanding of technology. Before working with Siemens, Sarmi had had a long experience with Telecom Italia, where he was also on the team that first launched mobile telephony in Italy. Under his leadership, the transformation continued.

### **The creation of BancoPosta**

The creation of BancoPosta in 1998 was a crucial decision. Although Poste Italiane did not and still does not possess a full banking license, since 1875 the postal administration has offered postal savings books distributed exclusively on behalf of Cassa Depositi e Prestiti (CDP), a joint-stock company under public control. CDP issues postal savings bonds and offers passbook savings accounts, which are directly guaranteed by the Italian State. With the savings thus collected, CDP provides public financing, directly financing investments by the State, local authorities and other public entities. In 1924, interest-bearing postal savings bonds were introduced. The combination of State guarantee, safe yields, a high degree of liquidity, small denominations and the extensive distribution network of the post offices throughout the country made public fundraising easier this way than through Treasury bills.

With the creation of BancoPosta as a separate entity under the Poste Italiane Group; and the subsequent introduction into the marketplace of a wider range of financial-services products (such as the BancoPosta current account, Postepay prepaid card, insurance policies, bonds, investment funds, personal loans, and mortgages), which took their place alongside Poste Italiane's traditional passbook savings accounts and interest-bearing bonds; the revenue generated by the financial arm of Poste Italiane grew tremendously. These products were all introduced in partnership with third-party companies, such as banks or investment funds, thereby eliminating the need for a full banking license. In 1999, BancoPosta started selling life insurance under the brand Poste Vita. Today, BancoPosta is the largest retail bank in Italy, and the second-largest life insurer. The recent 2008-2009 global recession only strengthened this position, as many customers fled the traditional banks and entrusted their savings with BancoPosta (Segreti, 2008). As of the end of 2008, BancoPosta managed over €300 billion of savings. Close to 80% of the groups operating profits were generated by the financial services, making it by far the most profitable enterprise of Poste Italiane.

The thorough modernisation of Poste Italiane, as well as the creation of BancoPosta and the subsequent diversification into financial and insurance products, were all important first steps towards PosteMobile. Among BancoPosta's products, the Postepay prepaid credit card, introduced at the end of 2003, probably represents one of the most outstanding successes in Poste Italiane's recent history. As of the end of 2009, over 5.5 million individuals in Italy have chosen the prepaid Postepay card, which can be topped up and allows customers to make purchases and withdraw cash from ATMs.

Important investments have accompanied the transformation and diversification process. In 2008 alone, the volume of investments destined for increasing infrastructure networks and information and communication systems, reached €712 million (compared to €608 million invested the previous year). Of these total investments, €485 million concerned investments in property, plant and equipment, primarily relating to the re-organisation of delivery services (the restructuring of sorting offices, the purchase of equipment for the activities of the new delivery centres), and to the restructuring, modernisation and upgrading of Post Offices owned by the company (purchases of hardware for new information technology systems for Post Offices and head office premises, and continued work on the restyling of Post Offices). A further €226 million concerned investments in intangible assets, such as the purchase and entry into service of new software applications for both the maintenance and development of accounting systems and technology infrastructure used to support service provision. The investments carried out by PosteMobile in software used in its role as a mobile virtual network operator are included in this sum.

The combination of innovation, diversification and efficiency gain has laid the foundations for the current success, which can be clearly seen from the company's financial figures. Financial statements have seen ever increasing profits for seven years running, a significant achievement after 50 years of red ink. In 2009, the Poste Italiane Group recorded a net profit of €904 million, up 2.4% compared to the previous financial year. The operating result stood at €1.6 billion (compared to 1.44 in 2008). Total revenue increased to almost €20.1 billion. In particular, results for financial and insurance services have been very positive.

## The first years of PosteMobile

The inspiration to launch mobile services came from Mr Sarmi in early 2006. The original business plan was rapidly developed mainly by Mr Sarmi himself, his Director of Strategic Planning, Paulo Stanzani, and a mobile communication expert, Roberto Giacchi, who later went on to become the CEO of PosteMobile. The project was approved by the Board of Poste Italiane in late 2006. From approval to start-up, implementing the project therefore took less than a year. Before being appointed at Poste Italiane, Mr Sarmi was a former managing director at Telecom Italia Mobile, Italy's leading mobile telecommunications operator. As previously mentioned, he also worked as managing director of Siemens Italy. His experience of mobile communications and deep understanding of that market helped shape the idea and subsequent strategy for entering this new market.

Mobile phone penetration in Italy is one of the highest in the world. Not surprisingly then, the mobile services market is large and relatively profitable. It is, however, also a mature market. According to the Italian National Telecommunications Regulator:

Italy is the world's fifth-ranking market in telecommunications in per capita sales, and first in mobile telephony voice services. And it is an open and competitive market, with one of the most advanced regulatory systems: in Italy there are foreign and multinational operators such as Vodafone, British Telecom, Telefonica, Swisscom, Wind, and Hutchinson Wampoa . . . In mobile telephony, the entrance of virtual mobile operators . . . further enlivened the already-existing competition. (Communications Regulatory Authority, 2008, 13)

Recognising the opportunity of proposing integrated postal and financial services via mobile phone, Poste Italiane signed a deal with Vodafone to become a mobile virtual network operator, using Vodafone's physical infrastructure. As a virtual mobile network provider, PosteMobile does not use proprietary network infrastructure, but rather relies on the physical network infrastructure of Vodafone. This approach has allowed PosteMobile to focus on offering advanced services and, more importantly, to differentiate itself from other mobile operators in a mature market. Investments have mainly been in assets such as software, ICT infrastructure and human resources. In March 2007, Mr Sarmi (cited in Sylvers, 2007, 13) said: "We have a huge number of clients so we can afford to have very low margins in our businesses, and that will be the same when we launch the cell-phone services".

PosteMobile launched in November 2007, and within a year gained its first 670,000 customers. The original aim of PosteMobile was to capture 2 million customers by 2011 (Sylvers, 2007). By the end of 2009, the number of customers had reached 1.2 million, with a growth rate higher than any other provider in Italy except for Wind, the third largest mobile communication company. Underlying the decision to enter this market was not only the realisation that a business opportunity existed, but also the recognition that Poste Italiane possessed a number of unique competitive advantages that would increase the likelihood of success. These factors included a strong existing brand, a large existing customer base, internal synergies with existing services and a strong proprietary distribution network: the post offices.

The initial focus has been on existing BancoPosta and Poste Italiane customers, but also on employees and their families. In general, by establishing itself as a low-cost provider in traditional voice and text services, and pushing pre-pay packages, PosteMobile is aiming primarily for families, young persons and the lower-income market, including that of immigrants. This has resulted in the first million customers, and revenue per customer of around €15 per month. Although this may be lower than many of the larger competitors, additional revenue is derived through synergies with the other business units of Poste Italiane and the value-added services offered.

As of early 2010, PosteMobile has two types of price plans: the traditional prepaid offer, and a monthly flat-rate tariff, billed as a prepaid service. PosteMobile is planning to launch post-paid tariffs in 2011. Discounts are offered to customers who link their SIM card to a BancoPosta account or a credit card. This reduces the price of the flat-rate plan from €9 to €7 a month.

As of May 2009, small and medium-sized businesses were targeted as well as Poste Italiane customers more generally. In addition to this, the range of services is being expanded to include gaming, advertising, insurance, digital signature and other services. This will make the PosteMobile SIM card capable of a full range of mobile services including mobile e-commerce and e-government services.

During 2007 and 2008, over €35 million have been invested in PosteMobile by the parent, and during its first 14 months of operation, the company generated close to €40 million in revenue. Although still a loss-making business at the end of 2009, it was anticipated that break-even would be reached shortly.

Core to the PosteMobile model is the capability of providing the distinctive value-added mobile services,

identified in PosteMobile's portfolio under the brand "Servizi Semplifica" (simplified services). To access all the distinctive Semplifica services it is necessary to link the PosteMobile SIM card to a Banco Posta bank account and/or to a PostePay prepaid card. Through this association, and with a few simple commands from the mobile phone, it is possible to engage in a number of services such as:

- operate a bank transfer to another Banco Posta bank account or to any other bank account
- recharge a PostePay prepaid card from the Banco Posta bank account
- transfer money from one PostePay pre-paid card to another
- recharge the prepaid telephone credit from a Banco Posta bank account or from a PostePay pre-paid card
- check the balance or the list of the latest transactions of a Banco Posta bank account or of a PostePay pre-paid card
- purchase Products and Services paying by the Banco Posta bank account or the PostePay pre-paid Card
- pay bills

The ramifications of launching PosteMobile were widespread throughout the Poste Italiane organisation, given its intimate link with both BancoPosta and the Post Office network. As an example, post offices are one of the main distribution channels for prepay top-up cards. It was therefore necessary to upgrade equipment at post office counters to allow a fast and efficient service to customers. Datalogic Scanning provided post offices with around 30,000 new omni-directional scanners, capable of reading a variety of bar codes, such as those on printed registered mail, the PosteMobile telephone cards, and retail items sold by the post office. The scanners also have the ability to capture images, such as a digital version of the customer's signature.

When it came to staffing the new company, employees were sourced mainly from outside the Group, more specifically from the telecommunications sector. The main skills and know-how needed for PosteMobile do not differ much from any other information and communication technology company, both in the business lines and in staff areas. Mobile financial services being at the core of the competitive strategy, recruitment was also aimed at acquiring specific skills and know-how in order to develop these innovative services. By the end of its first year of operation, in December 2008, PosteMobile employed 70 people.

### What next for PosteMobile?

Over the medium term, the aim is to move further into the B2B market by offering price-competitive solutions to small and medium-sized businesses. There are over 4 million small businesses in Italy, each employing less than 10 people. These businesses operate around 10 million SIM cards at the moment. In addition to this, there are around 25,000 medium-sized companies with between 10 and 50 employees, operating almost half a million SIM cards. These types of companies are likely to find PosteMobile appealing, due not only to competitive prices but also to the unique services offered.

Capitalising on its initial successes, PosteMobile intends to launch more m-commerce facilities in the future, allowing customers to buy products and services with their phones. PosteMobile plans to begin by making it possible for customers to purchase tickets for rail and urban transportation, and later on other services such as other travel tickets and insurance. For instance, in January 2010, a deal was struck between PosteMobile and Rome's public transport company, allowing customers to buy their tickets via PosteMobile.

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# Instructor's Manual

## Introduction and summary

This case describes the diversification of Poste Italiane, the Italian Postal Operator, into mobile (cellular) telephony, with the launch of PosteMobile in 2007. Within a short time, this new company gained a small but significant market share in mobile communications. The case starts by explaining the general context of transformation and modernisation of Poste Italiane, and illustrates how a national postal operator can evolve from being a loss-making government agency to becoming a profitable government-owned company. It illustrates this transformation by focusing on how the company has recently diversified, first into financial services and more recently into mobile communications.

## Objectives and pedagogy

The case aims to provide a unique industry context for students to apply some basic models of strategic management. The case allows students to:

- gain an understanding of the particular strategic context of a highly regulated network industry subjected to important changes in the external business environment
- examine how a company can successfully engage in seemingly un-related diversification
- appreciate the importance of resources and competences in market entry
- identify alternative competitive strategies in a highly competitive market
- understand how emergent and planned approaches to strategy may co-exist and be influenced by changes in top management

The case has been written with a broad audience in mind, including advanced bachelor, master or MBA students. A number of questions for class discussion are suggested below, along with a related discussion. The list of questions is not exhaustive and further topics could easily be discussed depending on the needs of the particular student audience. Questions 1, 2, 3 and 5 should be adequate for both undergraduate and postgraduate strategy students. Question 4, discussing planned and emergent approaches to strategy, may be more adequate for postgraduates, but this will largely depend on the curriculum of the particular course on which it is used.

This case does not depart far from the typical strategy case. The novelty lies mainly in the industry studied and the particular context of this type of government-owned business. The global postal industry is typical of a highly regulated industry and is in the midst of being transformed into a competitive industry, with a number of operators around the world having been privatised and others rapidly following suit. The case will thus provide an opportunity for students to familiarise themselves with a very particular context, and apply strategic thinking to that context. This should benefit students as they will gain a richer picture of strategy and its application.

## Questions for discussion

Some examples of questions that could be the basis of a case discussion are:

1. What were the key milestones in the transformation of Poste Italiane from 1994 to 2007, leading up to the launch of PosteMobile?
2. How would you characterise the business-level (competitive) strategy of PosteMobile?
3. How do you think PosteMobile fits into the corporate strategy of Poste Italiane?
4. Considering the period 1998-2010, would you characterise the approach to strategy at Poste Italiane as a planned or an emergent approach?
5. How important were resources and competences in allowing Poste Italiane to successfully diversify with the creation of PosteMobile?

## Case analysis

The discussions below are illustrative of the type of analysis that may emerge during case discussion and should not be taken as the only possible answers to the questions.

1. **What were the key milestones in the transformation of Poste Italiane from 1994 to 2007, leading up to the launch of PosteMobile?**

The key milestones that can be identified directly from the case text are:

- 1994: Creation of Ente Poste Italiane; absorption of accumulated losses (debt) by the Italian State, appointment of Professor Enzo Cardi as Chairman of the new entity
- 1998: Creation of Poste Italiane Group, appointment of Corrado Passera as CEO, €1.5 billion capital increase (over 3 years), creation of BancoPosta

- 1999: BancoPosta enters life insurance market under the brand Poste Vita
- 2002: Appointment of Massimo Sardi as CEO; Poste Italiane posts its first profit
- 2003: BancoPosta launches Postepay prepaid credit card
- 2007: Launch of PosteMobile

## **2. How would you characterise the business-level (competitive) strategy of PosteMobile?**

PosteMobile effectively uses a hybrid strategy. It initially employed a low-cost strategy, aiming to provide price-sensitive customer segments with a simple and competitive service. In order to achieve this, it leveraged its close to 14,000 post offices as cost-effective retail outlets, and signed a deal with Vodafone to provide the network. Very rapidly the low-cost position was complemented by a differentiation strategy, centred on mobile financial services and other mobile services (mobile commerce for example). This differentiation is aimed at creating value particularly to BancoPosta customers, thereby making BancoPosta more attractive as well, but is being gradually extended beyond this.

## **3. How do you think PosteMobile fits into the corporate strategy of Poste Italiane?**

The Poste Italiane Group has gradually been diversifying itself into areas seemingly unrelated to mail, such as banking, finance and insurance, but areas where the company can create synergies and add value to its portfolio. PosteMobile represents another step in this diversification strategy and is a good fit, in as much as it benefits from the Post Office network, brand and existing customer base (as do the banking and insurance products), but also provides synergies with existing product areas (banking, mail, insurance etc.).

## **4. Considering the period 1998-2010, would you characterise the approach to strategy at Poste Italiane as a planned or an emergent approach?**

This question is likely to cause some degree of debate and one would expect to find some students arguing that there was a planned approach, whilst others might try to argue for a more emergent approach. A planned approach was clearly used during the period from 1998 to 2002. From 2002 onwards, the reality is probably that there were elements of both approaches in play.

In 1998 the Italian Prime Minister deliberately appointed an outsider with general management experience and experience of working with a wide range of companies in turnaround situations (although the case does not state this, Olivetti was a company that had gone through difficult times in the IT industry), to manage the transition to a government-owned corporation in 1998. This would not have been a coincidence. Mr Passera set about restructuring operations and re-organising during his 4 year tenure. As part of this re-organisation, Post Offices were upgraded, new management was hired from outside the company, key performance indicators were introduced (quality targets), prices were changed, and so forth. BancoPosta was also created and the company entered the life insurance business. These changes were made possible by 3 yearly injections of capital of €500 million each by the Italian State. All these changes give the clear impression of a planned turnaround during 1998 to 2002.

From 2002 onwards, under the leadership of the new CEO, Mr Sarmi, the company appears to have continued down the path it had embarked on. In contrast, the move into the mobile communication industry appears somewhat less planned. The fact that Mr Sarmi had previous experience in this industry could suggest that the Chairman, Prof Enzo, or other stakeholders had intentions of moving Poste Italiane in this direction when appointing Mr Sarmi. Yet the case clearly states that the idea came to Mr Sarmi in 2006. The very rapid creation of PosteMobile suggests that this move was not one that had been planned for a long time, but was more spontaneous in nature. This might suggest a more emergent type of strategy, with the company acting on perceived opportunities whilst pursuing the general plan of gradual modernisation.

## **5. How important were resources and competences in allowing Poste Italiane to successfully diversify with the creation of PosteMobile?**

This question may again lead to some degree of debate. It would appear from the case that resources and competences were important enablers of the diversification into mobile communications. A number of options could be used in discussing this question. One approach would be to separate resources and competences into basic (threshold) ones, and unique (core) ones. Another would be to focus more on the role these played.

Clearly, the past experience of both Mr Sarmi and Mr Giacchi were crucial to the rapid creation and implementation of the PosteMobile business plan. On the one hand, it also appears obvious that to be successful in the mobile communication market a number of expensive resources are a necessity, including on the technology side a wide network of base stations and IT infrastructure. Distinctive competences on both the technical, marketing and sales sides are also important. On the other hand, in the case of a Mobile Virtual Network Operator (MVNO), the technical competences are effectively outsourced to the network operator, in this case Vodafone, leaving the MVNO free to focus exclusively on marketing and sales. In the case of PosteMobile, some infrastructure and technical competences were required in order to create applications for mobile banking and commerce, and for integrating the offering with existing BancoPosta and Poste Italiane services, but these were all available on the open market.



What Poste Italiane possessed was a formidable retail network; a long standing and deep relationship with its customers, both citizens and business customers; as well as a growing commitment to and understanding of IT. To sum up, Poste Italiane possessed a number of resources and competences that could easily be adapted to the new market and a deep understanding of the mobile communications market at the level of top management. Other resources and competences, those that were necessary but not necessarily critical to the firm's differentiation strategy, were simply bought on the open market, including human capital.